

Message Text

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SUBJ: TRADE IMPLICATIONS FOR U.S. OF AUSTRALIAN DEVALUATION

REF: CANBERRA 8603

1. BEGIN SUMMARY: BUSINESS COMMUNITY ANTICIPATES THAT AUSTRALIAN DEVALUATION WILL LEAVE UNCHANGED OR EVEN INCREASE U.S. EXPORTS OF BIG-TICKET ITEMS. LOSSES CAN BE EXPECTED IN EXPORTS OF SMALL COMPONENTS AND CONSUMER GOODS. FOREIGN INVESTMENT INCREASE, WHILE EXPECTED, MAY BE RESTRAINED UNTIL INVESTORS ARE SATISFIED THAT ECONOMY'S OTHER PROBLEMS ARE BEING SATISFACTORILY DEALT WITH. END SUMMARY.

2. AUSTRALIAN POSTS HAVE SURVEYED THEIR BUSINESS COMMUNITIES TO ASCERTAIN PROBABLE TRADE IMPACT OF AUSTRALIAN DEVALUATION, PARTICULARLY FOR U.S. EXPORTS.

3. FINDINGS SHOULD BE VIEWED IN CONTEXT OF PRESENT UNCERTAINTY REGARDING GOVERNMENT'S MONETARY AND TARIFF POLICY. COMMENTATORS HAVE SINCE DEVALUATION EXPRESSED DOUBTS AS TO GOVERNMENT COMMITMENT TO RESTRAIN GROWTH OF MONEY

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SUPPLY, AND HENCE INFLATION, IN FACE OF EXPANSIONARY CONSE-

QUENCES OF DEVALUATION-INDUCED FOREIGN EXCHANGE INFLOWS. WITH MOST INTEREST RATES CURRENTLY NEGATIVE IN REAL TERMS, AND WITH RECENT MONEY SUPPLY GROWTH HAVING SUBSTANTIALLY EXCEEDED TARGET, FAIR DEGREE OF TIGHTENING LIKELY REQUIRED TO STAY WITHIN MONETARY GROWTH TARGET. THERE IS CONSIDERABLE SPECULATION THAT SUCH TIGHTENING WILL NOT BE UNDERTAKEN, AND PUBLIC APPREHENSION THAT IF IT IS, ECONOMIC RECOVERY WILL BE SUBSTANTIALLY SET BACK. SENSATIONALIST PRESS COMMENTARY HAS PREDICTED HORRENDOUS CREDIT SQUEEZE OR 20-30 PERCENT INFLATION RATE OR BOTH.

4. SECOND UNKNOWN RELATES TO TARIFF POLICY. WHILE FOREIGN EXCHANGE EXPENDITURES FOR IMPORTS WILL OBVIOUSLY DECLINE RELATIVE TO EARNINGS FROM EXPORTS, IT IS CONCEIVABLE THAT ABSOLUTE LEVEL OF IMPORTS WILL DECLINE ONLY FOR RELATIVELY BRIEF PERIOD. ALTHOUGH IT APPEARS THAT NO SUBSTANTIAL TARIFF REDUCTION IS IN PROSPECT, IF THERE WERE A MEANINGFUL TARIFF CUT IT WOULD INCREASE LIKELIHOOD OF THIS OUTCOME.

5. MOST INTRIGUING ELEMENT UNEARTHED BY POSTS IN THEIR BUSINESS SURVEY IS POSSIBILITY THAT FOREIGN INVESTMENT MAY NOT MATERIALIZE TO EXTENT ANTICIPATED. CONSULATE PERTH REPORTS MARKED DIVERGENCE OF VIEWS IN THIS REGARD BETWEEN AUSTRALIANS AND AMERICANS. GENERAL AUSTRALIAN ATTITUDE IS, "SHE'LL BE RIGHT, MATE." AMERICANS ARE NOT NEARLY SO OPTIMISTIC. THEY APPEAR CONCERNED WITH AVAILABILITY OF SKILLED LABOR, CONTROL OF POTENTIAL WAGE/PRICE SPIRAL, ATTITUDES OF STATE AND COMMONWEALTH GOVERNMENT, AND, TO A LARGE DEGREE, INDUSTRIAL UNREST. SINCE WESTERN AUSTRALIA'S EXPORTS, ACCOUNTING FOR ONE-QUARTER OF AUSTRALIA'S EXPORTS, CONSIST PRIMARILY OF MINING AND AGRICULTURAL PRODUCTS, AND SINCE THESE ARE THE TWO SECTORS UNIVERSALLY IDENTIFIED AS BENEFITING FROM DEVALUATION, ATTITUDES IN WESTERN AUSTRALIA, WHICH ARE ALSO FOUND AMONG AMERICAN MANUFACTURERS IN MELBOURNE, MAY BE SIGNIFICANT PORTENT.

6. BUSINESS ANXIETIES ARE RELEVANT TO DECISIONS OF AMERICAN SUBSIDIARIES WITH LOCAL MANUFACTURING OPERATIONS AS TO EXTENT TO WHICH TO INCREASE LOCAL MANUFACTURING IN PLACE OF U.S. SOURCING. WHILE SOME FIRMS AS A CONSEQUENCE INDICATE THEY

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ARE NOT PLANNING TO CHANGE MIX, THERE ARE OTHERS WHICH DO ANTICIPATE INCREASED LOCAL MANUFACTURING. THUS, OVER TIME DEVALUATION WILL BRING DEGREE OF CHANGE.

7. IN BIG-TICKET ITEMS AND IN SOME INPUTS TO MANUFACTURING, BUSINESS COMMUNITY EXPECTS NO REDUCTION IN U.S. IMPORTS. U.S. QUALITY IS DETERMINING FACTOR FOR BIG TICKET ITEMS, AND AUSTRALIANS WILL GRUMBLE BUT PAY INCREASED PRICE.

EXAMPLES: AIRCRAFT, LOCOMOTIVES, MINING AND AGRICULTURAL EQUIPMENT, MACHINE TOOLS, OTHER HEAVY EQUIPMENT, AND ARTICLES WITH VERY HIGH TECHNOLOGY CONTENT, SUCH AS COMPUTERS.

8. SIGNIFICANT INCREASES IN PROFITS, AND ULTIMATELY PRODUCTION, ARE EXPECTED IN MINING AND AGRICULTURE. MANUFACTURING OUTPUT IN LINES PRODUCING FOR EXPORT OF SUBJECT TO IMPORT COMPETITION WILL ALSO INCREASE. THERE IS FAIRLY GENERAL EXPECTATION THAT U.S. EQUIPMENT SALES TO MINING INDUSTRY WILL INCREASE. THIS MAY ALSO OCCUR WITH AGRICULTURAL MACHINERY, ALTHOUGH U.S. DOES NOT HAVE SUCH A DOMINANT SUPPLIER'S ROLE AS IN MINING. BUT FORD MOTOR CO. IN MELBOURNE ANTICIPATES, FOR INSTANCE, THAT IMPROVED RURAL INCOME MAY OFFSET TRUCK SALES DROP WHICH HIGHER COST OF IMPORTED TRUCKS MIGHT OTHERWISE PRODUCE. AND THERE MAY BE SOME INCREASES IN SALES OF HIGH-QUALITY U.S. MADE COMPONENTS THAT ARE INCORPORATED INTO AUSTRALIAN MANUFACTURES IN LINES BENEFITING FROM DEVALUATION.

9. CAPITAL GOODS PICTURE IN MANUFACTURING IS LESS CLEAR. INCREASED FINAL DEMAND FOR PRODUCTS OF EXPORTING AND IMPORT-COMPETING INDUSTRIES MUST BE BALANCED AGAINST PRESENT UNDERUTILIZED CAPACITY AND HIGHER COST OF IMPORTED CAPITAL GOODS. ON BALANCE, ANY SIGNIFICANT UPTURN IN CAPITAL GOODS IMPORTS SEEMS LIKELY TO BE DEPENDENT ON GENERAL ECONOMIC IMPROVEMENT.

10. U.S. IMPORT LOSSES CAN BE EXPECTED IN SMALL COMPONENTS IN WHICH U.S. EDGE ON PERFORMANCE OR QUALITY IS NOT WORTH THE 20 PERCENT INCREASE IN PRICE, AND IN WHICH AUSTRALIAN PRODUCTION FACILITIES ALREADY HAVE SPARE CAPACITY. PARTICULARLY VULNERABLE ARE ITEMS LIKE FRACTIONAL HORSE-POWER ELECTRIC MOTORS, IN WHICH IMPORTS FROM U.S. HAVE RECENTLY BEEN PROGRESSIVELY DISPLACING AUSTRALIAN MANUFACTURES. TO SOME UNCLASSIFIED

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EXTENT, THESE IMPORT LOSSES OF U.S. AND OTHER COUNTRIES MAY BE PICKED UP BY NEW ZEALAND RATHER THAN AUSTRALIAN MANUFACTURERS DUE TO NEW ZEALAND DEVALUATION AGAINST CURRENCIES OTHER THAN AUSTRALIAN. ONE SUCH CASE HAS COME TO CONGEN SYDNEY'S ATTENTION ALREADY.

11. ANTICIPATION OF DOWNTURN IN IMPORTS OF U.S. CONSUMER GOODS IS WIDESPREAD. CONSULATE BRISBANE REPORTS THAT SOME QUEENSLAND BANKERS EVEN ANTICIPATE DEFAULT ON ORDERS BY SOME IMPORTERS WHO WERE ALREADY REACHING LIMITS OF THEIR FINANCES.

12. COUNTRY COMMERCIAL PROGRAM CAMPAIGN MANAGER FOR TRAVEL USA PREDICTS THAT, CONTRARY TO GENERAL EXPECTATIONS, TRAVEL TO U.S. WILL PROBABLY BE AFFECTED ONLY MINIMALLY. PLANS ALREADY

MADE LIKELY TO BE CARRIED OUT, AND TRAVELLING PUBLIC EXPECTED TO ADJUST QUICKLY TO HIGHER PRICES. IN ADDITION, AUSTRALIAN DOLLAR PRICE OF INTERNATIONAL TRAVEL NOT YET ADJUSTED, AND FULL ADJUSTMENT MAY BE DELAYED BY PROCEDURAL REQUIREMENTS.

13. THUS, CONSENSUS OF BUSINESSMEN APPEARS TO BE THAT AUSTRALIAN DEVALUATION WILL HAVE MIXED EFFECT ON U.S. EXPORTS TO AUSTRALIA. NET EFFECT MAY WELL BE SMALL, WITH GAINS IN SOME SECTORS OFFSETTING LOSSES IN OTHERS.
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